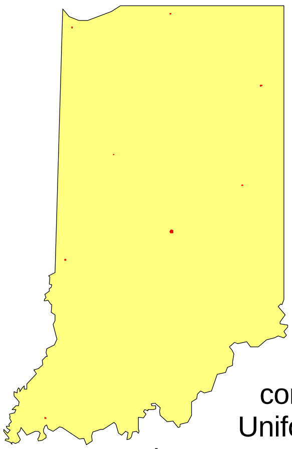

CONSUMER CREDIT IN INDIANA

There is a law in Indiana which regulates how much you can be charged for credit, restricts what can happen to you if you pay late, and defines what information must be provided to you before you commit to any credit transaction. The name of that law is the Indiana Uniform Consumer Credit Code ("UCCC"), some of the UCCC's more important provisions are given below.

While you have the duty to pay your debts, you also have certain rights:

- You have the right to be informed in advance about the costs of credit so that you have the opportunity to find the best deal or to decide against using credit;
- You have the right to use credit at rates that do not exceed the limits set by law;
- You have the right to shop around for insurance and to refuse to purchase credit and other types of insurance from the lender;
- You have the right to cancel certain door-to-door contracts and certain real estate transactions;

These rights will be discussed in greater depth in the pages to follow.

What is Consumer Credit?

Consumer credit is a credit sale or loan which meets all of the following conditions:

- the credit is extended by a person who does so regularly;
- the borrower is an individual or individuals;
- the credit is primarily for a personal, family or household purpose, and not primarily for a business, investment, or agricultural purpose;
- either a finance charge is made or the debt is payable in five or more installments besides the down payment; and
- the amount borrowed does not exceed Fifty thousand dollars ($50,000) or the credit is secured by real estate.

Consumer credit is a credit sale if the seller of goods or services arranges or extends the credit, such as when an automobile dealer sells you a car and obtains financing for you.

Consumer credit is a loan if a third-party lender, such as a bank or finance company, extends the credit. Consumer credit may be either closed-end or open-end. With closed-end credit, you borrow a fixed amount for a set term and pay that amount back in installments with interest. The most common examples of open-end credit, sometimes referred to as revolving credit, are credit cards.

Disclosures

The privilege of borrowing money to be repaid at a later date will cost you something. This cost is called a finance charge, commonly known as interest. It is possible that on some loans you could end up paying more in finance charges than you borrowed in the first place.

Both the Federal Truth-in-Lending Act and the Indiana Uniform Consumer Credit Code require that the finance charge be disclosed to you in terms of a dollar amount and as an annual percentage rate (APR). The APR is the cost of credit expressed as a yearly rate of interest.

Creditors are required to disclose the cost of credit so that you can compare costs from several different creditors. Different creditors will charge different amounts and rates even for the same types of credit. It is up to **YOU**, as a consumer concerned about the costs associated with credit, to shop around for the best deal.

A copy of a sample disclosure form is given below. However, the creditor usually will not give you this disclosure until you are just about ready to sign the loan papers. You should begin your comparison shopping much sooner than that.

The Cost of Credit

You can start shopping early by calling, writing or visiting different types of creditors. Ask the merchants or sellers what they will finance and at what cost. Next contact banks, credit unions, and finance companies to see who will give you the best deal. You may have to provide credit information. Depending upon the results of your investigation, you may decide that using credit is too expensive and perhaps will choose to wait awhile. If it is an option, you may decide to pay cash or to make a larger down payment in order to reduce the costs of credit.

Example 1

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	Amount Financed	Total of Payments	Total Sale Price: including Downpayment of $2,000.00
18%	$3,280.00	$8,000.00	$11,280.00	$13,280.00
Your payment schedule will be: 48 @ $235.00 Monthly beginning 7/1/97				

Assume that example 1 represents the terms upon which an automobile dealer would be willing to finance your used car purchase. Take note of the terms disclosed in the boxes, especially the APR, the Finance Charge, and the Total of Payments. You will want to compare these terms to the terms offered by other creditors.

Example 2

After one phone call, you discover that your bank will loan you the $8,000 at an APR of 16 percent over four years. Your monthly payments would be reduced to $226.72 because the amount of the finance charge decreases as a result of the lower APR. Therefore, your total payments would be reduced to $10,882.56--**a savings of $802.56**!

Example 3

Another lender has told you that they will loan you the $8,000 at an APR of 17 percent over three years. Your monthly payments would increase to $285.22. However, the finance charge you will pay would be reduced to $2,267.92 due to the lower APR and the shorter term. This option would reduce your total payments to $10,267.92-- a $1,417.20 savings from Example 1! If the lender would reduce the APR to 16 percent, your monthly payment would be $281.26 with total payments for 36 months of $10,125.36; saving you even more.

If you can afford to make higher monthly payments, Example 3 will result in the greatest savings to you, and you will pay off your car 12 months earlier than you would have under the first two options.

Example 4

You can save even more money if you increase the down payment in Example 3 from $2,000 to $3,000 and borrow only $7,000. Assuming that the APR is still 17 percent, increasing the down payment will reduce your monthly payments to $249.57 and your finance charge to $1,984.62. You have saved almost $300 more!

The preceding examples demonstrate that there are a variety of ways to save money by shopping around for the best credit terms. Some key credit terms to consider in your search for the best deal are the APR, the finance charge, and the number and total of payments. These terms can vary greatly from creditor to creditor, so it is up to you to be a smart comparison shopper.

You can lower the cost of credit yourself by increasing your down payment or asking for a shorter term. The best deal for you will depend upon what you can afford.

Maximum Rates

The Indiana Uniform Consumer Credit Code limits the amount of finance charge a creditor can receive.

Credit Sales and Loans

A seller/lender can charge the following on the total amount financed:

36 % on amounts up to $930, plus
20 % on amounts from $930.01 to $3,100, plus
15 % on amounts over $3,100, or
21% **whichever is greater**.

A seller/lender can collect a minimum finance charge of $33.

An example of the maximum step rate:

A $2,000 loan for 12 months would have a maximum rate of 31.05%.

Open-end revolving charge sales maximum rate is 1 3/4% per month (21% APR) with a minimum charge of 50 cents per billing cycle.

These are the highest rates that a creditor can charge. However, many creditors charge much lower rates. If you take the time to shop around, and if you have a sound credit history, you should be able to negotiate a much lower rate. You should not borrow at the maximum rates unless absolutely necessary.

Insurance

Credit Insurance

When you buy something on credit or borrow money from a lender, you may be asked if you want to purchase credit insurance. This is insurance which will pay your debt if you die, become disabled or are involuntarily unemployed. If you purchase this insurance from a creditor, it can be expensive. So, if you think that you might need credit life, accident and health, or involuntary unemployment insurance, you should first review your current insurance coverage to see if any additional coverage is necessary. If after reviewing your current coverage you still believe that you need credit insurance, you should consult your own insurance agent who may be able to offer you similar coverage at lower rates.

Under most circumstances, **a creditor cannot require you to purchase its credit insurance. A creditor cannot condition a lower rate or more favorable terms upon the purchase of credit insurance**. Your decision to purchase credit insurance must be completely voluntary. Be prepared to say "no" if you do not want and do not need credit insurance. If the creditor does require credit insurance, the premium must be included in the finance charge and reflected in the Annual Percentage Rate.

Property Insurance

Property insurance covers losses on damaged, lost or stolen property. A creditor can require you to maintain property insurance on personal or real property that you have pledged as collateral. For example, a creditor will most likely require that you have insurance (collision as well as liability) on your car in connection with an automobile loan. However, you cannot be required to purchase property insurance through the creditor.

If you already have property insurance (such as homeowner's, renter's or automobile insurance) which covers the collateral, you can have your insurance company add a loss payable clause. The loss payable clause will make the creditor a beneficiary on the policy. If you do not have property insurance, you should check with an insurance agent who can probably offer you coverage at a lower price than that offered by the creditor.

Guaranteed Auto Protection

Guaranteed auto protection ("GAP") is very similar to insurance. In the event your vehicle is declared a total loss due to accident or theft, GAP will pay any deficiency between your insurance reimbursement and the balance outstanding on your loan at the time of the loss. If your vehicle depreciates in value faster than you are able to reduce the balance of your loan, GAP may reduce your risk of being left with a balance owing after your car has been totaled or stolen.

Like most insurance sold by the creditor, GAP products can be expensive. **The creditor cannot require you to purchase GAP**. As always, you should check with your own insurance agent to find out if similar, less costly coverage is available.

Other Insurance

You may be offered the opportunity to purchase other insurance, such as standard life insurance, from the creditor. This life insurance is not credit insurance in that it does not pay off the balance of your loan in the event something happens to you. Rather, a standard life insurance policy will pay proceeds directly to your designated beneficiary. In most cases, the creditor will not require you to purchase other insurance. Once again, before agreeing to purchase any other insurance coverage from the creditor, check to see if your own insurance agent can offer you a better deal.

Loans Secured by Real Estate

If you are shopping for a second mortgage or home equity loan, you may encounter the following costs or additional charges:

Points

Prepaid finance charges, or points, are part of the finance charge but are usually financed or added to the principal balance at the time you take out your loan. A point is simply one percent of the loan amount.

To illustrate: A lender offers to loan you $8,000 at 16 percent interest for 36 months plus 2 points.

Amount financed	$8,000	Points ($8,000 x 2%)	$160
Amount of loan	8,160	Interest 2,168	
Total payments	$10,328		

Your monthly payments would be $286.88, the APR would be 17.42 percent, and the finance charge would be $2,328 ($160 plus $2,168).

Variable Rates

You may run into variable rates in connection with some credit cards as well as on loans secured by real estate. With variable or adjustable rate mortgages, the interest rate can increase or decrease over the life of the loan. You should ask the following questions with respect to variable rate loans:

- when and by how much can the interest rate or finance charge change;
- is there any limit or cap on the amount by which the interest rate can be increased over the life of the loan;
- will increases in the interest rate result in increases in payments, negative amortization, or both; and
- has the initial interest rate been discounted, and, if so, by how much and for how long?

Closing Costs

The following fees may be added to the amount financed on a loan secured by real estate if they are bona fide and reasonable in amount:

- fees for title examination, abstract of title, title insurance, property survey, and similar purposes;
- fees for preparing deeds, mortgages, and reconveyance, settlement, and similar documents;
- notary, appraisal, and credit report fees; and
- amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the finance charge.

Revolving Credit

Revolving credit is a plan under which the creditor will allow you to borrow amounts up to a set limit as you need the money. You may borrow funds, repay those funds, and borrow them back again. A finance charge will be computed from time to time on the unpaid balance. The most common example of revolving credit is a credit card.

Interest rates, annual fees, transaction fees, and other charges can vary widely from credit card to credit card. It is up to you to shop around for the best deal.

Right to Cancel

Once you have signed a contract, you are legally bound. You do not have the right to cancel except under the following special circumstances:

Home Solicitation Sales

You have until midnight of the third business day after you have signed an agreement to cancel a home solicitation sale. A home solicitation sale is a sale in which you sign the purchase agreement at your residence, you have not negotiated the sale previously at a business establishment, and you do not use a credit card.

Loans Secured by Your Home

If a creditor takes a security interest in your home, you have the right to cancel the agreement until midnight of the third business day after the contract is signed. This right to cancel is also known as your right to rescind. Your loan proceeds may not be disbursed until your right to rescind has expired. You may waive your right to rescind in certain emergency situations.

Default

When you obtain credit, you promise to repay the creditor according to the agreement. If you fail to repay your debt or fall behind in your payments, the creditor may sue you or repossess any collateral in which you have given a security interest. You may have to pay repossession costs and/or attorney fees.

The Informed Use of Credit

Be an informed consumer. Use credit wisely. Shop around for the best rates and terms. Consider increasing your down payment or shortening the term of your loan to lower the overall cost of credit. Be prepared to say "no" to extras, such as credit insurance, if you do not need or really want them. Make sure that you understand what you are signing, and remember that once you have signed on the dotted line, you are legally obligated under the terms of the contract.

Protect your credit rating and don't get in over your head. If you run into problems paying your debts, try to work things out with the creditor or seek help from a licensed debt management company. If you feel that you need legal assistance, contact a private attorney. If you suspect that a creditor has violated Indiana's credit laws, send your complaint to:

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(317) 232-3955
(800) 382-4880
http://www.dfi.state.in.us Click on "Consumer Credit"